

Annual Audit and Inspection Letter

March 2006



Annual Audit and Inspection Letter

Lancaster City Council

Audit 2004-2005

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports to the Council

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any member or officer in their individual capacity; or
- any third party.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0845 056 0566.

© Audit Commission 2006

For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

www.audit-commission.gov.uk

Contents

Key messages	5
Council performance	5
Financial position	6
Other accounts and governance issues	6
Action needed by the Council	6
Council performance	7
Direction of travel report	7
Performance management	11
Access to Services Inspection	12
Best value performance plan and performance indicators	13
Accounts and governance	14
Audit of 2004/05 accounts	14
Financial standing	15
Systems of internal financial control	17
Standards of financial conduct and the prevention and detection of fraud and corruption	19
Legality of transactions	20
Use of resources judgements	21
Other work	25
Grant claims	25
National Fraud Initiative	25
Looking forwards	26
Future audit and inspection work	26
Revision to the Code of Audit Practice	26
A new CPA framework	26
Closing remarks	27
Availability of this letter	27

4 Annual Audit and Inspection Letter | Contents

Appendix 1 – Background to this letter	28
The purpose of this letter	28
Audit objectives	28
Inspection objectives	29
Appendix 2 – Audit and inspection reports issued	30
Appendix 3 – Audit and inspection fee	31
Inspection fee update	31

Key messages

Council performance

- 1 The Council is addressing the areas of weakness identified in the corporate performance assessment of 2004. Stronger corporate governance arrangements are resulting in more productive decision-making. Financial stability has been maintained through continued improvements in financial management and control. A consistent vision and clear priorities are providing a good strategic direction and attracting the commitment of staff, councillors and partners. Strengthened internal structures are supporting better analysis of weak areas so that the Council can focus its efforts and resources more efficiently. This is leading to improved outcomes in targeted service areas such as benefits; planning, housing and customer access. However, despite the Council's efforts, public satisfaction, when last tested, with its services overall was low especially in areas of local priority such as street cleaning. Whilst a number of changes are being made at a corporate level to support improvement, for example around performance management and workforce planning, these are not yet effectively and consistently in place across the Council.
- 2 In conjunction with the Council, we have identified a number of key areas where the Council needs to develop further to enable it to make a reality of the ambitious plans it has set out for the Council and for the area. In particular, the Council's performance management focus now needs to move away from setting and clarifying priorities to determining how these are going to be delivered. The business planning process is the key vehicle by which the Council translates its overall objectives into delivery within services and this is now the area where we feel a significant effort is needed.
- 3 The Council is assessed as having a fair, one-star approach to customer access and focus that has promising prospects for improvement. Overall, the Council is focused on improving access to services and is investing resources in this, initially through a pilot approach to put in place customer services centres. This approach is now being rolled out across all customer facing services. The Council has targeted resources to improve key services and has seen an improvement as a result, for example in the revenues and benefits service.
- 4 Internal quality control arrangements for ensuring the data quality of performance information continues to improve. This has led to improved accuracy, compliance with standard definitions and quality of supporting evidence. Some errors remain however and the Council needs to continue to improve the accuracy of its performance information to ensure that it represents a sound basis for decision-making.

Financial position

- 5 The Council continues to have a sound financial base, supported by an effective approach to medium-term financial planning. There remain challenges in relation to delivering some significant changes in the provision of services within limited resources and it is important that the Council continues to closely monitor financial performance and retain a focus on the medium to longer-term picture.

Other accounts and governance issues

- 6 We gave an unqualified opinion on the Council's accounts on 31 October 2005. Officers have achieved the production of materially correct accounts to an earlier deadline and further work will be required to repeat this again for the 2005/06 accounts. Additionally, the Council needs to ensure that the requirement to revalue fixed assets within a five-year period is clearly met and evidenced to ensure that the fixed asset values within the accounts remain valid.
- 7 We have not identified any significant weaknesses in the overall control framework and Internal Audit remains an effective element of that framework. The Council needs to continue developing its approach to risk management to achieve effective embedding within its management processes. We have identified some scope for improvement in terms of clarifying arrangements for bidding for and managing projects funded by specific grants and strengthening project management arrangements for the implementation of new financial information systems.
- 8 We have not identified any significant weaknesses in the framework established by the Council for ensuring the legality of its significant financial transactions. Areas where significant work remains to be done to achieve full compliance with new legal requirements are full implementation of the Civil Contingencies Act and the Local Government Pay Services Agreement.

Action needed by the Council

- 9 The Council should continue implementing its improvement plan and in doing this ensure that:
 - a more sophisticated approach is developed to identifying public satisfaction with the Council and its services, identifying the underlying causes for any dissatisfaction and taking appropriate action to deal with these;
 - effective consultation and engagement arrangements are applied consistently across the organisation;
 - performance management, risk management and value for money (VFM) approaches continue to become more effective;
 - workforce planning is developed and effectively linked with operational and financial plans to help ensure the Council has the capacity to achieve its ambitions; and
 - financial management arrangements continue to support the Council in achieving its objectives.

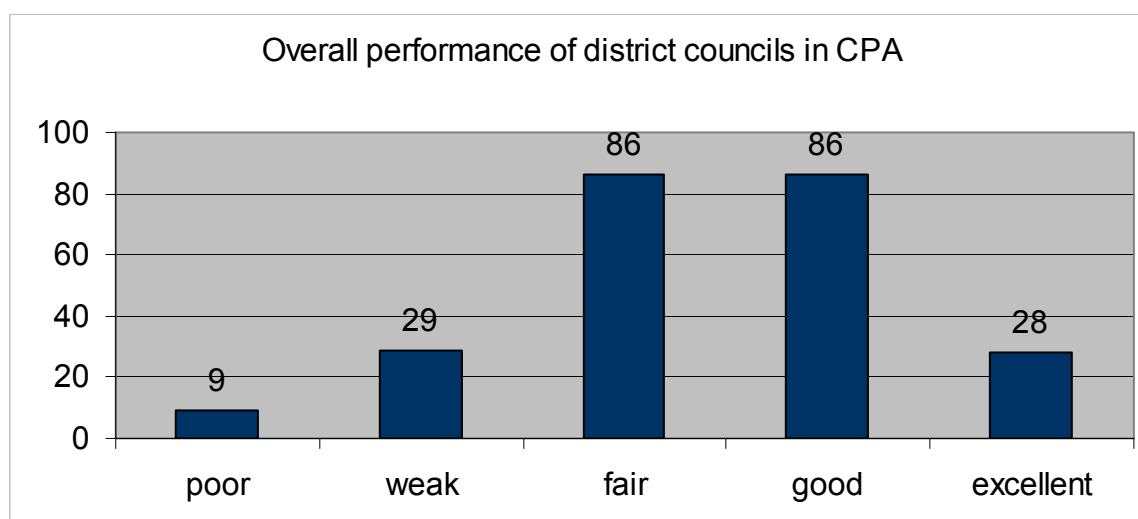
Council performance

Direction of travel report

- 10 Lancaster City Council was assessed as fair in the comprehensive performance assessment (CPA) carried out in 2004. These assessments have now been completed in all district councils with the following results.

Figure 1 Overall performance of district councils in CPA

Three times as many district councils are rated good or excellent than poor or weak



Source: Audit Commission

- 11 Since the assessment, the Council has identified its priorities for improvement and we have been working with the Council as it seeks to improve further.
- 12 The Council is addressing the areas of weakness identified in the corporate performance assessment of 2004. Stronger corporate governance arrangements are resulting in more productive decision-making. Financial stability has been maintained through continued improvements in financial management and control. A consistent vision and clear priorities are providing a good strategic direction and attracting the commitment of staff, councillors and partners. Strengthened internal structures are supporting better analysis of weak areas so that the Council can focus its efforts and resources more efficiently. This is leading to improved outcomes in targeted service areas such as benefits; planning, housing and customer access. Whilst a number of changes are being made at a corporate level to support improvement, for example around performance management and workforce planning, these are not yet effectively and consistently in place across the Council.

Improving outcomes

- 13** The Council is improving service delivery. In 2004/05, 51 per cent of national performance indicators had improved when compared to previous years, with significant levels of improvement in areas such as planning processing times and the benefits service. The Council is not a top performer with only 27 per cent of indicators in the top 25 per cent band but 50 per cent of national indicators are above average when compared to similar Councils.
- 14** Recycling rates are rising but remain comparatively low at the end of 2004/05 and there is a poor rate of public satisfaction with recycling facilities and waste collection. The Council is implementing an enhanced household waste collection scheme using the three-stream recycling model and this is expected to cover 90 per cent of the area by 2007/08. Investments in the housing repairs service continue to pay-off. Recent Council figures show that it has reduced waiting times from 30 days to 5 days and tenants' satisfaction is rising. However, despite the Council's efforts public satisfaction, when last tested, with its services overall was low especially in areas of local priority such as street cleaning.
- 15** An exception is satisfaction with the Council's handling of complaints. This has substantially improved following the introduction of a new complaints system, and the first phase of the Council's customer call centre which led to the number of missed calls falling substantially from 30 per cent to less than 3 per cent. Improving access to its services is a strong priority for the Council and an inspection of Customer Focus and Access in September 2005 assessed its approach as 'fair' with 'promising' prospects for improvement. The Council's Customer Access Review was a catalyst for changing its response to the public and the range of access channels offered to local people. Improvements in access are beginning to drive more effective back office systems, for example instigating a more efficient approach to the collection of bulky waste. The Council is making steady progress in achieving its e-government targets. However, progress in publishing service standards has been slow making it difficult for the public to know what to expect.
- 16** The Council recognises the need to address those areas of greatest concern to its communities. In order to improve cleanliness of streets and open spaces, it is tackling weaknesses in its approach to enforcement for example contributing to the funding of additional Police Community Support Officers who will carry out environmental enforcement duties. The Council has agreed to the inspection of its waste management during 2006 with the expectation that it will help the Council make further improvements in this area.

- 17 The Council recognises that homelessness levels are too high and is working to reduce the impacts of homelessness. Through investment in a new post and working in partnership with community organisations it is reducing the length of time that homeless families spend in bed and breakfast accommodation. Projected figures for 2005/06 indicate that the numbers of homeless applications and acceptances are beginning to reduce. The Council hopes to secure improvements by strengthening its strategic approach to balancing local housing markets and working within the local strategic partnership to target affordable housing.

Leadership and strategic direction

- 18 Firm political and managerial leadership is setting a clear strategic direction. Decision-making processes are more streamlined and transparent for example through delegating decisions to individual cabinet members. A more consensual approach has led to better prioritisation of efforts and resources. As a result staff and councillors are clearer about what the Council is trying to achieve and how they contribute to delivery of its objectives. Resources are targeted towards priority improvement areas. As confidence builds, there is more appetite for change and the Council is becoming more ambitious in its aims for itself as an organisation, and for the future of its communities.
- 19 The Council responds constructively and positively to external challenge and learns from others for example examining examples of best practice in performance management and customer access before finalising its plans. Internally, restructuring of the Overview and Scrutiny arrangements has brought benefits through more productive challenge. The scrutiny programme focuses on corporate priorities and is linked to the Cabinet's forward plan.
- 20 Community leadership is growing through the Council's involvement in the local strategic partnership (LSP) and the development of its ambitious plans for regenerating the area. It has attracted a significant level of external funding to support its aims for the renaissance of the more deprived areas. The Council is facing some difficult decisions regarding the future management of its property assets and is prepared to consider radical change in order to provide better quality customer environments. It recognises and is beginning to respond to the distinct and different challenges of the city; the coast; and the rural areas and this is improving its ability to target initiatives to better meet diverse needs. Improved prioritisation is characterised by a corporate plan which is clear and links well to the aims of the community strategy. It targets areas that are identified as important to local people through the community strategy consultation.

- 21 The Council does not have a consistent, corporate approach to involving residents and partners in its decision-making through effective consultation and engagement. It is starting to address this for example it consulted with key partners about its corporate plan priorities for 2006/07. However, its approach is mainly confined to specific schemes and projects rather than systematically offering a wide range of opportunities for local people to influence and shape service delivery. There is also a lack of co-ordination across the Council so that the results of consultation and feedback are not shared and the Council's knowledge about its customer profile and its changing communities is not updated. It is targeting minority and potentially excluded groups through its work with the equality and diversity sub group of the local strategic partnership although this is at an early stage. It carries out impact assessments of its policies as part of delivery the race equalities scheme. However, the Council is not consistently engaging with its more marginalised communities or those who are potentially the most disadvantaged. The Council has recently implemented a wide range of actions to improve its approach to consultation which it expects to address the above issues.

Systems to support improvement

- 22 The Council has continued to strengthen financial management and control systems and improve its overall financial base using its medium-term financial strategy effectively to support decisions and prioritisation. It maintains a year-round focus on budgets through its 'star chamber' process which identifies efficiency savings; makes sure that resource allocation matches priorities and is beginning to drive an emphasis on value for money. Better financial management and clearer prioritisation are beginning to feed into a more effective business planning process for 2006/07.
- 23 Introducing a reliable, corporate approach to performance management is a challenge for the Council. Progress has been slow but project plans for the implementation of a new framework which has the commitment of councillors and managers are now in place. Currently, there are pockets of good practice for example in the revenues and benefits, and housing services, but no systematic corporate approach to gathering data and using it to manage performance and drive improvements. The Council is developing more reliable performance information systems and reporting schedules. The quality and timeliness of performance data is patchy but improving. Reports to senior managers and cabinet are more regular and identify the direction of travel of high-level indicators and 'hot topics' that require remedial action. The new framework is based on better information gathering and reporting via the Escendency system, complemented by stronger management of performance through service improvement teams (one per cabinet member) and a regular 'corporate report' to cabinet.
- 24 Risk management is developing with a corporate risk register in place and risk assessments integrated into cabinet reports. However, it is not fully integrated with service planning or linked to routine service management. Business continuity planning is not well-developed or sufficiently integrated with emergency planning to meet national requirements.

- 25 Capacity within the Council to design and deliver the service improvements it seeks, alongside its ambitious plans for regeneration, is stretched. Its approach to workforce planning is under-developed. The Council is building capacity through recruitment and investing in staff training and development. All senior managers have completed the university-based management development programme and middle managers are receiving internal training. Member training has lacked focus and is slow to implement. Sickness levels are improving through better management and a new occupational therapy scheme. They still remain relatively high at 12.2 days in 2004/05 and a potential 11 days for 2005/06.
- 26 Internal communication is improving with team briefing and effective monthly briefings from the Management Team receiving high attendance and good feedback. The Council has worked hard to improve its reputation with local people by improving external communication through for example, the development of its news letter which is very well-received and website. It has also built productive relationships with local media, significantly improving the coverage of Council activities in the local press. Lancaster City Council has signed up to the LGA 'Local Government Reputation' project, committing itself to a series of set priority actions, to help drive up public satisfaction within local government.

Performance management

- 27 As the Authority has been developing its approach to performance management, we have reviewed both its current position and plans for the future to take a view on how effective the current arrangements are and whether the planned improvements are in the right direction to fill any gaps.
- 28 We have worked with the Authority during the course of the review including facilitation of two workshops involving senior officers and members, one dealing with the principles of performance management and how they relate to Lancaster and one dealing with the gaps in the current arrangements and where information on alternative approaches might be available to tackle these.
- 29 The Council has made progress over the last few years in developing its performance management framework. In particular linkages have now been made to the Community Strategy, the Council's priorities are now much clearer, member structures have changed and they are now more involved in performance management of the Council, the Council is becoming more focussed on outcomes rather than processes, and the star chamber mechanism is helping the Council align resources to priorities.
- 30 In conjunction with the Council, we have identified a number of key areas where the Council needs to develop further to enable it to make a reality of the ambitious plans it has set out for the Council and for the area. In particular, the focus of the Council's efforts now needs to move away from setting and clarifying priorities to determining how these are going to be delivered. The business planning process is the key vehicle by which the Council translates its overall objectives into delivery within services and this is now the area where we feel a significant effort is needed.

- 31 The Council is implementing a number of actions to:
- maintain the validity of strategic plans through community input;
 - clarify plans for delivery of the Community Strategy between partners;
 - ensure there is a clear understanding of the Council's priorities within the organisation;
 - improve business planning to ensure there is a focus on delivering key improvements for residents consistent with the Council's corporate plan;
 - develop and embed risk management in such a way that the Council can pursue innovative solutions in a controlled and transparent manner;
 - identify the skills needed from the workforce for future delivery and working with partners to ensure any capacity gaps are filled;
 - evaluate the value for money delivered by Council services and pursue alternative delivery options where this would achieve better value;
 - clarify the performance framework; and
 - evaluate more regularly how the Council is performing through management information and the cabinet/scrutiny role in performance review.

Access to Services Inspection

- 32 This inspection focused on the Council's approach to improving services through customer access and focus. The objective of strengthening accessibility and user focus is to refocus services around the needs of citizens and other customers, rather than the problems of those who provide services.
- 33 The Council is assessed as having a fair, one-star approach to customer access and focus that has promising prospects for improvement. Overall, the Council is focused on improving access to services and is investing resources in this, initially through a pilot approach to put in place customer services centres. The Council has targeted resources to improve key services and has seen an improvement as a result, for example in the revenues and benefits service.
- 34 We have made recommendations about how the Council can improve its approach. These include the following.
- Develop a corporate approach to consultation to ensure best use is made of resources and good practice is shared. This should:
 - build on good practice in regeneration areas;
 - focus on developing appropriate mechanisms for consulting traditionally excluded groups and non-users; and
 - ensure feedback is routinely given to consultees so that they are clear about the action the Council has taken in response to their views.
 - Set and publicise precise, measurable and challenging service standards for all customer facing services, that make clear the level of services customers can expect to receive in terms of responsiveness and meeting their needs.

- Review the level and means of access across all services to ensure that opening times, access channels and outreach facilities are consistent and meet the needs of users.
 - Use customer information and performance management to measure and evaluate the take-up of services by, and impact on, particular groups and assess needs and satisfaction to influence service planning and delivery.
 - Quantify the extent of community involvement in the district including the full impact of the changing role of the voluntary and community sector.
- 35** The Council has recently implemented a wide range of actions to improve its approach to consultation. These include the re-launching of its consultation strategy, awareness raising and training for services, the provision of consultation tools including a tool for e-consultation, an annual consultation plan for 2006/07 and requesting council tax payers to register if they are willing to be future consultees. The effectiveness of the consultation approaches is to be reviewed by the Council's Budget and Performance Panel during 2006/07

Best value performance plan and performance indicators

- 36** We have audited the Council's best value performance plan (corporate plan and corporate performance plan) and we are satisfied that the plan includes those matters prescribed in legislation and statutory guidance and that the arrangements for publishing the plan complied with the requirements of the legislation and statutory guidance.
- 37** Internal quality control arrangements for ensuring the data quality of performance information continues to improve. This has led to improved accuracy, compliance with standard definitions and quality of supporting evidence. The use of Internal Audit to test check sample indicators improved these arrangements with particular impact on indicators where previous issues had been identified.
- 38** Some errors remained caused by simple calculation errors and applying the definitions incorrectly. In some instances there were still issues about inadequate working papers and system inadequacies in extracting the required data. The Council therefore needs to continue to improve the accuracy of its performance information to ensure that it represents a sound basis for decision-making.
- 39** Additional action is being taken to address the need to improve data quality including the continued use of Internal Audit to test check the quality of indicator calculations and provide advice/support, continued focus on high-risk indicators and the implementation of mentoring for PI practitioners.

Accounts and governance

Audit of 2004/05 accounts

We gave an unqualified opinion on the Council's accounts on 31 October 2005. Officers have achieved the production of materially correct accounts to an earlier deadline and further work will be required to repeat this again for the 2005/06 accounts. Additionally, the Council needs to ensure that the requirement to revalue fixed assets within a five-year period is clearly met and evidenced to ensure that the fixed asset values within the accounts remain valid.

Matters arising from the final accounts audit

- 40 Under the Accounts and Audit Regulations 2003, the deadline for approving the 2004/05 accounts had been brought forward one month to 31 July 2005 with audit opinions required by 31 October 2005. The Authority has again produced its accounts earlier than the statutory requirements, the draft statement of accounts being approved by the Audit Committee on 25 July 2005. We provided an unqualified opinion on the accounts on 31 October 2005.
- 41 The accountancy team experienced a number of staff changes during 2005 which made closedown of the accounts and responding to audit queries particularly difficult. The achievement of an earlier closedown together with a materially correct set of statements in these circumstances is a significant one.
- 42 The audit identified a number of errors that were subsequently corrected. None of these impacted on the bottom line of the revenue account and none were considered to be significant enough to warrant being brought to the attention of members prior to giving our audit opinion. The most significant errors identified related to the incorrect calculation of depreciation charges relating to fixed assets. Correction of the error led to a reduction in fixed asset values of £310,000 with a net nil impact on the revenue account since such charges are reversed out of the revenue account to ensure a nil impact on council tax.
- 43 Action has already been taken to reduce the risk of such errors in next year's accounts. The most significant issue identified during the audit of the accounts which could affect future audit opinions relates to the need to be able to demonstrate that fixed assets are revalued every five years in accordance with CIPFA guidance.
- 44 For 2005/06 when the statutory timetable comes forward one more month, continued efforts will be needed to achieve the production and approval of a materially correct set of accounts within the shorter timescale. In particular it will be important to ensure that new staff receive appropriate training and guidance during the year and that the closedown process is subject to close supervision and review. Any changes in closedown processes to achieve the earlier deadline will require effective communication to all those involved.

Financial standing

The Council continues to have a sound financial base, supported by an effective approach to medium-term financial planning. There remain challenges in relation to delivering some significant changes in the provision of services within limited resources and it is important that the Council continues to closely monitor financial performance and retain a focus on the medium to longer-term picture.

General fund spending and balances

- 45 The outturn for 2004/05 resulted in an underspend of almost £500,000 against the original budget for the year (just over 2 per cent of net cost of services). This follows a growing trend of underspends in recent years. The 2005/06 budget was agreed keeping the council tax increase to under the 'target' of 5 per cent, retaining balances within the levels determined by the chief financial officer whilst also delivering some significant improvements such as the extension of the recycling scheme. The revised budget for 2005/06 reflects a forecast underspend against the original budget of £600,000. The 2006/07 budget, recently agreed by members, allows for over a £1 million for new spending commitments, with various savings also being made and a planned use of balances of £410,000 resulting in a council tax increase of 4.5 per cent.
- 46 Recent changes in the finance settlement from the Government have been financially helpful to the Council. These include:
- the announcement of a provisional settlement for the next two years as well as the current year giving some certainty for forward financial planning purposes;
 - a change towards supporting capital expenditure through capital grants rather than borrowing, removing the interest costs which would have otherwise been incurred; and
 - a more favourable settlement than expected.
- 47 Potential pressures on future budgets which have not yet been fully quantified include the implementation of service changes following the Council's access to services review and the implementation of single status requirements for employees' terms and conditions and equal pay. Reserves have been created in 2004/05 following underspends in other areas to help fund these initiatives and will help to reduce the impact in the short-term. For the longer-term, a full evaluation still needs to be completed. Projections for future years still show potential council tax increases of over 5 per cent and the Council is continuing its approach to identify savings to keep council tax increases below this level for the future.
- 48 General fund balances have continued to grow, standing at £2 million at 31 March 2005 and potentially growing to £2.6 million depending on the final outturn for 2005/06. (The level considered prudent by the chief financial officer is £1 million.) The level of balances helps to mitigate the risks involved around the current uncertainties noted above and is helpful in enabling the Council to plan new initiatives with some confidence.

- 49 The use of the medium-term financial plan (MTFP) and the Council's star chamber has helped the Council to understand at an early stage the level of savings needed to achieve delivery of its priorities including keeping council tax increase below 5 per cent. Work was ongoing with individual services through this approach to identify potential savings for almost twelve months prior to the approval of the 2005/06 budget. Clear links can be seen between the areas of growth and savings identified and the Council's priorities for the area.
- 50 We have identified areas where the further development would be helpful:
- ensuring all capital projects and disposals go through the asset management group; and
 - ensuring the MTFP does not just focus on new developments that are currently ongoing but also risk assess the likelihood and impact of future events and changes.

Capital programme

- 51 The Council's capital programme continues to grow from £7.9 million in 2003/04 to £11.8 million in 2004/05 and a forecast spend of £17 million in 2005/06. This growth reflects the continued success of the Council in attracting external funding for regeneration and sea defence work. As the size of the programme grows, the need for strong project management also grows to ensure that such projects are delivered to the required specifications, on time and within budget.
- 52 There have been significant slippages in the programme in 2004/05, (£11.2 million) and 2005/06, (£14.3 million). These relate mainly to two schemes, Luneside East urban village and Morecambe townscape heritage scheme. It is important that members receive periodic information on progress on the capital programme together with explanations for any significant slippages or changes in budgeted spend so that they can ensure appropriate action is being taken. Capital progress monitoring information is currently provided to members through the corporate financial monitoring reports but there is limited explanatory information provided.

Income collection and arrears

- 53 At 31 March 2005, debt owed to the Council was £10.2 million. Much of this relates to amounts only recently become due and from government departments which have a high likelihood of collection. Performance monitoring of the main categories of debts being collected by the Council during the year show a reasonable and improving performance as shown in the table overleaf.

Table 1 Income collection performance

Improvements in debt collection are evident for most types of debt

Debt type	2003/04 actual	2004/05 actual	2004/05 target
Rent collected as percentage of rents owed	97.4%	98.4%	100%
Percentage of council tax collected	96.3%	96.5%	96.7%
Percentage of NNDR collected	98.7%	98.7%	99%
Percentage of housing benefit overpayments collected	41.8%	43.33%	None set, actual performance in 2004/05 is above the national average of 41.4 per cent.
Sundry debtors <ul style="list-style-type: none"> Total debt as at July Debt over one year old as at July 	£2.3m £1.0m	£2.1m £0.8m	None set

Source: Council PI/corporate monitoring reports

Systems of internal financial control

We have not identified any significant weaknesses in the overall control framework and internal audit remains an effective element of that framework. The Council needs to continue developing its approach to risk management to achieve effective embedding within its management processes. We have identified some scope for improvement in terms of clarifying arrangements for bidding for and managing projects funded by specific grants and strengthening project management arrangements for the implementation of new financial information systems.

Internal Audit

- 54 To comply with this area of the code we review the Council's arrangements for ensuring adequate monitoring of financial systems. A key element of the Council's arrangements is the existence of an effective internal audit function. Much of our work therefore focuses upon the work completed by Internal Audit. We continue to place reliance on their work and consider their coverage and the quality of work to be good with a generally good response from services to their recommendations.

Any other issues

Risk management

- 55 The Council has continued to develop its approach to risk management. There is now clear evidence of support at senior officer and member level and evidence of greater understanding across the organisation. At a member level, the Audit Committee has been allocated responsibility for risk management and receives quarterly reports. Corporate risk registers have been developed which are clearly linked to priorities within the corporate plan. However, risk management is not yet fully embedded in corporate business processes and at an operational level.
- 56 The beginnings of a culture change within the Council's attitude to risk can be seen with opportunity risk being addressed through training and senior management encouragement. Several examples of this being applied exist including recent decisions to close cash offices, considerations relating to the disposal of the two town halls, and the access to services agenda all of which represent significant changes coupled with risks but also representing key opportunities for improvement.
- 57 The Council's approach to risk management does not yet include the identification of risks and assurances relating to significant partnerships although this has occurred in recent examples of partnering contracts.

External funding

- 58 The Council, in line with many others, is more involved in bidding for external funding than in previous years. Far more government funding is available through this approach than previously as government bodies try to direct money into priority areas. Such monies generally come with specific requirements in relation to accounting and accountability for the spending of these funds. The availability of such monies therefore represents an important opportunity for Councils to assist in the delivery of new initiatives but also represents a risk of loss of funding where conditions are not met. Although officers are verbally advised of the requirements around bidding for such funds there are no formally agreed written procedures. We have re-stated our recommendation that formal procedures should be developed to reduce the associated financial risk to the Council.

New information systems

- 59** The Council is currently introducing a number of key information systems. In the context of this environment of change, it is important that the Council's project and programme management arrangements are satisfactory, and that risk in this area is identified and minimised. We have reviewed the implementation of the task system in order to gain an understanding of how effectively the Council has implemented a significant new financial system, and to identify any learning which could be applied to other system implementations. Our review was carried out against a background of other project management reviews currently being carried out by Internal Audit.
- 60** It is evident that Council officers worked hard to bring about a successful implementation of this project, although there were a number of project planning and management issues that caused problems throughout the process. Key areas of learning for future implementations include:
- ensuring sufficient resources are available to support the implementation including effective testing of new systems, cross-modular links and their interfaces with existing systems;
 - post implementation, assigning project ownership and undertaking a post-implementation review; and
 - producing tighter specifications with suppliers particularly in relation to agreeing variations, ongoing communication requirements, arrangements for resolving problems and requirements for delivery of modules etc to enable an effective testing programme before going live.

Standards of financial conduct and the prevention and detection of fraud and corruption

We have not identified any significant weaknesses in your arrangements to prevent and detect fraud and corruption. There is scope for improvement, particularly in relation to reviewing the effectiveness of whistleblowing arrangements.

- 61** The Council continues to maintain and update its arrangements in this respect including, over the last year, providing guidance to officers and members on how to deal with allegations of fraud and introducing a review of registers of interest and hospitality.
- 62** There is scope to improve the Council's whistleblowing arrangements. A whistleblowing policy is in place and is held on the Council's internet and intranet sites and it is included as part of induction training. However, the policy is not yet communicated to third parties contracting with the Council and there has not been a review of the effectiveness of the existing whistleblowing arrangements.

Legality of transactions

We have not identified any significant weaknesses in the framework established by the Council for ensuring the legality of its significant financial transactions. Areas where significant work remains to be done to achieve full compliance with new legal requirements are full implementation of the Civil Contingencies Act and the Local Government Pay Services Agreement.

- 63 We have reviewed the Council's arrangements for considering the impact of new legislation for the following areas:
- Freedom of Information Act;
 - Civil Contingencies;
 - Money Laundering; and
 - Single Status.
- 64 These are all significant legislative changes for local authorities where non-compliance could result in serious consequences for the Council including financial loss. In all cases, relevant officers were aware of the requirements and arrangements were in place to achieve compliance although there is still much to be done.

Table 2 Progress in relation to new legislative requirements

Legislative area	Position
Freedom of Information	<p>The Council is well-placed to deal with the legislation. There are some areas still being worked on and these include:</p> <ul style="list-style-type: none"> • identifying and considering impact of information shared with partners; • completing a review of electronically held records; and • installing appropriate information management systems to ensure that information is quickly identifiable and retrievable.
Civil Contingencies Act	<p>The Council has begun work on developing a business continuity plan and is working with the County Council in respect to emergency planning. In both cases the Council is in the early stages of development. This is an important area which needs to be addressed.</p>

Legislative area	Position
Local Government Services Pay Agreement 2004	The Council is aware of its obligation under the agreement and has commissioned a job evaluation study covering 50 positions following which the Council will consider various options to meet its obligations in this respect. Some authorities have already implemented the agreement but most are at a similar stage to Lancaster. Implementation can potentially have a significant financial impact for Council's although this will vary across Council's depending upon the different types of workforce they have and the option used to achieve implementation. It will be important to begin a financial evaluation to feed this into the Council's MTFP during 2006.
Money Laundering	Council officers are aware of the requirements and have nominated a money laundering officer whose first responsibility will be to identify those Council activities most likely to be affected by this and to ensure relevant staff have had appropriate training.

Source: Regularity report 2004/05

Use of resources judgements

- 65 The use of resources assessment is a new assessment which focuses on financial management but links to the strategic management of the Authority. It looks at how the financial management is integrated with strategy and corporate management, supports council priorities and delivers value for money. It will be carried out annually, as part of each council's external audit. We anticipate in future the use of resources judgements will form part of the CPA framework.
- 66 Previously, 'adequate arrangements' were sufficient to score 3, but under the new approach meeting 'adequate performance' will score 2. Scoring is based on the following scale.
- 67

1	Below minimum requirements – inadequate performance
2	At minimum requirements – adequate performance
3	Consistently above minimum requirements – performing well
4	Well above minimum requirements – performing strongly

68 We have assessed the Council's arrangements in five areas.

Table 3 Council's arrangements

The Council is performing well

Element	Assessment
Financial reporting	3 out of 4
Financial management	3 out of 4
Financial standing	3 out of 4
Internal control	3 out of 4
Value for money	2 out of 4
Overall	3 out of 4

(Note: 1=lowest, 4=highest)

- 69 In reaching these judgements, we have drawn on the above work and supplemented this with a review against specified key lines of enquiry.
- 70 The majority of scores of 3 reflect the effective financial governance arrangements the Council has put in place. Whilst the VFM element has received the lowest assessment, it is important to note that the Council has already begun a range of initiatives which are expected to improve this aspect of the Council's arrangements for the future.
- 71 The key strengths and areas for improvement for each area are summarised below.

Financial reporting

- Well-supported accounts produced which are materially correct and compliant with regulations and accounting standards.
- Good practice/innovation exists with the use of the hyperlinked CD to provide clear audit trail for all items within the accounts.
- Accounts were usefully presented to members prior to approval and discussed. The SIC was separately considered and discussed by members.
- The Council has not yet consulted on the publication of a summary set of accounts or published such a summary.

Financial management

- Strong approach to financial management and can demonstrate that its approach is helping it to deliver improvement priorities.
- Financial planning in the short and medium term is clearly linked to corporate objectives, service developments and supports the identification of efficiency savings to help make the best use of resources.

- Financial monitoring processes are good and have helped to prevent significant under/overspends.
- Approach to asset management has improved significantly in recent years with a much more strategic view being taken.
- There is scope to further develop the approach to medium-term financial planning, clarify resource plans with partners and the VFM delivered through partnerships and improve performance measurement of the Council's assets.

Financial standing

- Good track record of managing it's spending within budget and has effective budget monitoring processes in place.
- General fund balances are currently in excess of the planned levels but plans are in place to use excess amounts to deliver planned improvements in services in the medium-term.
- There is scope to improve the monitoring of debt collection performance and costs and further develop the approach to monitoring key financial health indicators.

Internal control

- Good basic risk management processes have been developed which now need further work to achieve effective embedding in Council's management processes including in relation to partnerships.
- Sound system of internal control is in place with clear links to the Council's risk management arrangements.
- Arrangements for ensuring appropriate internal controls within partnerships are in place.
- An audit committee has been in place for some years now and covers a range of internal control and governance arrangements. More could be done to develop the role of the audit committee further in terms of proactively considering governance arrangements and ensuring members have received appropriate training.
- Overall, some good anti-fraud and corruption arrangements in place and a range of examples of proactive counter fraud work ongoing. Indications are that there is a strong anti-fraud and corruption culture in place with good standards of conduct in place generally. There is scope for improvement, particularly around ensuring the effectiveness of whistleblowing arrangements.

Value for money

- The Council increasingly understands the underlying reasons why its costs and spending patterns differ from nearest neighbours and other district councils, although information on costs and how these compare to others and to the quality of services achieved is not yet consistently being used to review and challenge VFM throughout all services.
- Whilst in overall terms costs for key services are broadly in line with other district councils providing similar levels of service, there are still some differences in the quality and standards of some key services provided to local residents, and their levels of satisfaction with them.
- Links between spending, investment and the Council's corporate priorities are becoming more embedded within day-to-day operational arrangements with improvement evident following targeted investment in some priority areas. However, VFM considerations have not yet been integrated by all services into their day to day operational management arrangements and VFM targets have not been set consistently across the Council. There are plans to develop VFM targets as part of the 2006/07 business planning process.
- Arrangements for regularly benchmarking costs and quality of services achieved currently and over time need further development throughout all services and corporately if they are to act as an effective means of challenging performance and VFM.
- Major variations between budget and spend to date are highlighted through the existing corporate financial monitoring reports. However, reports do not necessarily highlight wider VFM issues nor do they appear to bring together information on costs and quality. The Council has still to integrate regular VFM monitoring into its existing performance management arrangements.
- An efficiency statement is in place but this does not yet include all known efficiencies and detailed work streams are still developing in many areas. The statement is not yet backed up by strong processes and structures for monitoring and review.
- The Council increasingly understands the full short and long-term costs of its actions and is now starting to take account of these when evaluating options and making policy decisions.
- There are some good individual examples of how joint procurement and partnership procurement opportunities are being used by the Council to improve service performance, quality and VFM. The Council is currently building up information to enable it to demonstrate the impact and VFM achieved from its procurement activity.
- There are some good individual examples of effective use of IT as a means of managing and improving VFM and service efficiency but IT is not yet being fully exploited across the whole Council.

Other work

Grant claims

- 72 In accordance with strategic regulation, the Audit Commission has continued with a more risk-based approach to the certification of grant claims. We have reduced our audit of these claims resulting in a reduced fee to the Council of about 10 per cent for 2004/05. The Council maintains a strong control environment for most of the claims we audit enabling us to limit our testing where possible. Following the success of the Council in obtaining additional external funding, there is however an increase in the number of claims we are required to audit, which will limit our ability to maintain an overall reduction in this area of our work.

National Fraud Initiative

- 73 In 2004/05, the local authority took part in the Audit Commission's National Fraud Initiative (NFI). The NFI, which is undertaken every two years, aims to help identify and reduce fraud by bringing together data from NHS bodies, local authorities and government departments and other agencies, to detect a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud, tenancy fraud and payroll fraud as well as, new for 2004/05, right to buy scheme fraud and providing new contact details for former tenants with arrears in excess of £1,000.
- 74 Lancaster City Council has received the NFI CD-Rom, officers had been trained in the use of the CD Rom, and a planned, prioritised approach has been taken to the reviewing of the matches. The NFI exercise is being managed, monitored, controlled in a reasonable manner and is still in progress. Savings identified to date by Lancaster are £27,835.

Looking forwards

Future audit and inspection work

- 75 We have an agreed plan for 2005/06 and we have reported in this letter those aspects that have already been completed. The remaining elements of that plan, including our audit of the 2005/06 accounts, will be reported in next year's Annual Letter.
- 76 We have sought to ensure, wherever possible, that our work relates to the improvement priorities of the Council. We will continue with this approach when planning our programme of work for 2006/07. We will seek to reconsider, with you, your improvement priorities and develop an agreed programme by 30 May 2006.

Revision to the Code of Audit Practice

- 77 The statutory requirements governing our audit work, are contained in:
- the Audit Commission Act 1998; and
 - the Code of Audit Practice (the Code).
- 78 The Code has been revised with effect from 1 April 2005. Further details are included in our Audit Plan which has been agreed with the Audit Committee in July 2005. The key changes include:
- the requirement to draw a positive conclusion regarding the Council's arrangements for ensuring value for money in its use of resources; and
 - a clearer focus on overall financial and performance management arrangements.

A new CPA framework

- 79 The Audit Commission is currently considering the results of the consultation on the proposals for revising the CPA framework for district councils. The revised framework will be published later in 2006 together with a proposed implementation timetable.

Closing remarks

- 80 This letter has been discussed and agreed with the Chief Executive and other senior officers. A copy of the letter will be presented at the next meeting of the Audit Committee.
- 81 The Council has taken a positive and constructive approach to our audit and inspection I would like to take this opportunity to express my appreciation for the Council's assistance and co-operation.

Availability of this letter

- 82 This letter will be published on the Audit Commission's website at www.audit-commission.gov.uk and also on the Council's website.

Mike Thomas
District Auditor and Relationship Manager
March 2006

Appendix 1 – Background to this letter

The purpose of this letter

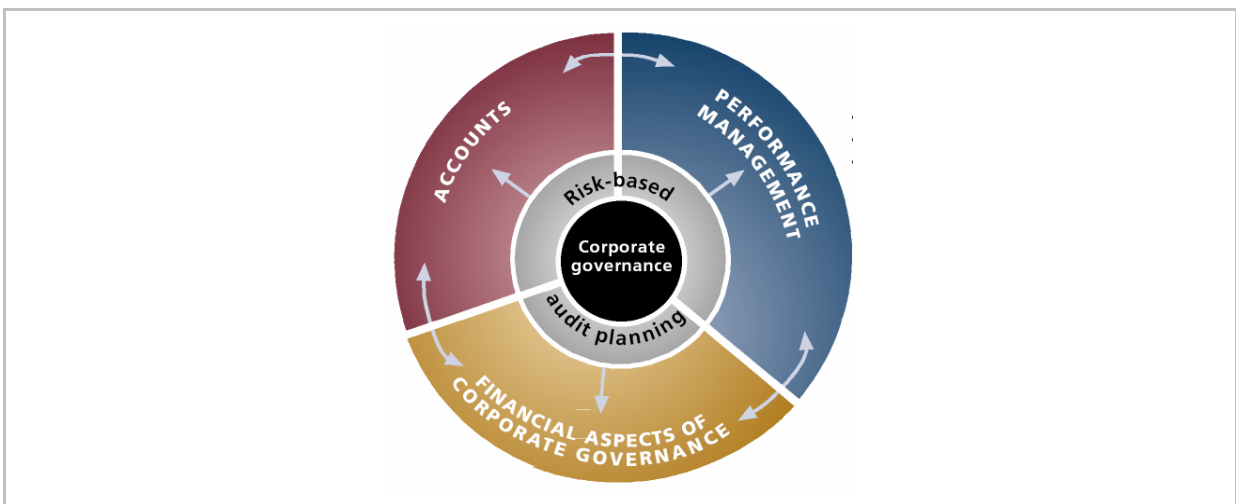
- 1 This is our audit and inspection 'Annual Letter' for members which incorporates the Annual Audit Letter for 2004/05, which is presented by the Council's Relationship Manager and District Auditor. The letter summarises the conclusions and significant issues arising from our recent audit and inspections of the Council.
- 2 We have issued separate reports during the year setting out the findings and conclusions from the specific elements of our programme. These reports are listed at Appendix 2 for information.
- 3 The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.
- 4 Appendix 3 provides information about the fee charged for our audit and inspections.

Audit objectives

- 5 Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on your significant financial and operational risks that are relevant to our audit responsibilities.
- 6 Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as set out in the Code and shown in Figure 2.

Figure 2 Code of Audit Practice

Code of practice responsibilities



Accounts

- Opinion.

Financial aspects of corporate governance

7 Reviewing how effectively the Council ensures:

- financial standing;
- systems of internal financial control;
- standards of financial conduct and the prevention and detection of fraud and corruption; and
- legality of transactions with significant financial consequences.

Performance management

- Use of resources.
- Performance information.
- Best value performance plan.

Inspection objectives

8 Inspection work is based around section 10 of the Local Government Act 1999, which requires us to carry out inspections and deliver reports that will:

- enable the Council and the public to judge whether best value is being delivered;
- enable the Council to assess how well it is doing;
- enable the Government to assess how well its policies are being implemented; and
- identify failing services where remedial action may be necessary.

Appendix 2 – Audit and inspection reports issued

Table 4

Report title	Date issued
Audit Plan	July 2004
Performance Management Report	March 2005
Regularity Report (Draft)	July 2005
Accessible Services Inspection	August 2005
The 'TASK' System, Review of Programme Management (Draft)	September 2005
Final Accounts Report	December 2005
Best Value Performance Plan and Performance Indicators	December 2005
Use of Resources Scores Feedback	March 2006

Appendix 3 – Audit and inspection fee

Table 5 Audit fee update

Audit area	Plan 2004/05	Actual 2004/05
Accounts	£35,135	£35,135
Financial aspects of corporate governance	£21,255	£21,255
Performance	£60,310	£60,310
Total Code of Audit Practice fee	£116,700	£116,700
Additional voluntary work (under section 35)	Nil	Nil
Total	£116,700	£116,700

Inspection fee update

The full year inspection fee is £7,900. The work reported in this audit and inspection letter has been funded by an element of the fee covering 2004/05 and by an element of the fee covering 2005/06. In both years the actual fee will be in line with that planned.